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TAX TIME 1998

TAX PACKAGES

The Internal Revenue Service will send about 60 million income tax packages this year. The mailout costs about $10.3 million for printing and $10.6 million for postage. Most taxpayers will get their tax packages soon after New Year's Day. The IRS expects to receive around 123 million tax returns in 1998, with continued growth in filing by telephone and by computer.

About one-third of the tax packages, about 26 million, will contain no tax forms. These TeleFile packages invite recipients to file by telephone. The packages contain a "tax record" which helps the taxpayer prepare for the call and serves as a record of filing. TeleFile is available for taxpayers who do not have dependents, whether they are single or married persons filing jointly.

Last year, the IRS eliminated its postcard program for those who used a paid preparer the previous year. The IRS had sent a label with the taxpayer's name, address and Social Security number (SSN) for use on the tax return, along with a postcard that the person could return to request a regular tax package. However, few labels were used and few packages requested. Eliminating the mailing saved about $10.6 million in printing and postage costs. This year, the IRS expects to save an additional $850,000 by sending such postcards instead of tax packages to 6.9 million taxpayers who used a computer to prepare or file their tax returns last year. The label may be placed on the tax return or signature form that the taxpayer will use this year. The pre-printed label helps to ensure accuracy in processing. The mailing also has a reply card for those who want a regular tax package sent to them.

The IRS is again sending a payment voucher, Form 1040-V, with all Form 1040 tax packages. Taxpayers should mail the vouchers with their payments. The vouchers help the IRS to process payments more efficiently and accurately.

Forms and publications are available via computer from the IRS Website at *www.irs.ustreas.gov* or the Internal Revenue Information Services bulletin board at 703-321-8020. The IRS TaxFax offers forms and instructions by return fax -- call 703-368-9694 from a fax machine.

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TAX FORMS: WHAT'S NEW FOR '97?

-- **Capital Gains Tax Rates** -- The top tax rates on capital gains are lower for most transactions, including installment payments received, after May 6, 1997, on property held more than one year. For transactions after July 28, 1997, the first two rates apply only to property held more than 18 months. The rates are:
-- 20% for most gains, but 10% for gains that would be in the 15% tax bracket;
-- 25% for gains resulting from the depreciation of real estate;
-- 28% for gains on collectibles and for gains after July 28, 1997, on property held more than one year but not more than 18 months.

Schedule D (Form 1040) will take taxpayers step-by-step through the computations. All taxpayers with capital gains will have to use Schedule D. Taxpayers who receive only capital gain distributions from mutual funds will no longer be able to report these distributions directly on Form 1040.

-- **Sale of Residence** -- For sales after May 6, 1997, up to $250,000 of gain may be excluded ($500,000 on a joint return) if the taxpayer has owned and used the home as a principal residence for two of the five years preceding the sale. This tax break may be used only once every two years. A taxpayer who fails to meet the two-year residency requirement because of a change in health, employment, or unforeseen circumstances may prorate the maximum exclusion by the percent of the two-year requirement met. The once-in-a-lifetime exclusion for those age 55 or older and the rollover provision, which deferred gain when a taxpayer bought a replacement residence, were both repealed, but may be used, at the taxpayer's option, for sales before August 6, 1997.

-- **Taxpayer Identification Numbers (TINs) Needed** -- A taxpayer identification number -- generally the Social Security Number (SSN) -- must be provided for each person claimed as a dependent or qualifying person for the child and dependent care credit. If a TIN is incorrect or missing, the exemption and the credit may not be allowed. There is no longer an exception for children born late in the year. Non-resident or resident aliens who are not eligible for an SSN should get an Individual Taxpayer Identification Number (ITIN) by filing Form W-7 with the IRS.

-- **Adoption Taxpayer Identification Numbers (ATINs)** -- A taxpayer who has a child for whom an adoption is not yet final may need this number to claim the child as a dependent and to claim any child care credit if the child's SSN cannot be obtained.

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-- **Adoption Expenses** -- For an adoption that became final in or before 1997, a taxpayer may claim a tax credit of up to $5,000 ($6,000 for a child with special needs) for qualifying adoption expenses paid in 1997. A person who receives employer-provided adoption benefits may exclude up to the same amount from income. The credit/exclusion amount is phased out as the taxpayer's adjusted gross income (AGI) rises from $75,000 to $115,000.

-- **Employer-Provided Educational Assistance Benefits** -- The exclusion from gross income for up to $5,250 of qualified employer-provided educational assistance benefits was again extended and will be available for undergraduate-level courses beginning before June 1, 2000.

-- **Individual Retirement Arrangements (IRAs)** -- On a joint return, up to $2,000 of earnings may be contributed to each spouse's IRA. Previously, if only one spouse had earned income, the total contributions were limited to $2,250. The early withdrawal penalty does not apply to IRA distributions used to pay medical expenses in excess of 7½% of AGI, or to pay health insurance premiums if the taxpayer has received unemployment compensation for 12 consecutive weeks.

-- **Self-Employed Health Insurance Deduction** -- Self-employed persons may deduct up to 40% of their health insurance premiums for every month they were not eligible to participate in an employer-sponsored health plan.

-- **Accelerated Death Benefits / Long-Term Care** -- Terminally ill persons may exclude accelerated death benefits they receive from a life insurance contract or a viatical settlement provider. Chronically ill persons may exclude such settlements -- as well as payments under a long-term care contract -- up to the amount of unreimbursed qualified long-term care expenses, or up to $175 a day for payments made on a periodic basis rather than as a lump sum. Long-term care insurance premiums and unreimbursed expenses may be deductible as medical expenses.

-- **Earned Income Credit (EIC)** -- A Social Security Number (SSN) must be listed for each qualifying child to claim the earned income credit. If the SSN is incorrect or missing, the credit may not be allowed. Generally, persons with investment income of more than $2,250 can't claim the EIC. Those who claim the EIC when they are not eligible may be barred from future EIC claims for as long as 10 years.

-- **Standard Mileage Rates** -- You may deduct 31½ cents a mile for all business miles driven, up one-half cent from 1996. The rates for medical and moving expenses (10 cents) and charitable contributions (12 cents) are unchanged.

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INFLATION ADJUSTMENTS FOR 1997

The filing requirements, personal exemption, standard deduction and maximum Earned Income Credit amounts are adjusted each year for inflation.

-- The 1997 gross income **filing requirements** are:

Single	$ 6,800
Head of household	$ 8,700
Married filing jointly	$ 12,200
Married filing separately	$ 2,650
Qualifying widow(er)	$ 9,550

Different amounts apply if the taxpayer or spouse is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return. There are also other specific situations which require the filing of a return, such as when the net earnings from self-employment are $400 or more.

-- The **personal exemption** amount for 1997 is $2,650 -- $100 more than last year. Higher income taxpayers may have to reduce the personal exemption amount they claim if their adjusted gross income exceeds:

Single	$ 121,200
Head of household	$ 151,500
Married filing jointly or Qualifying widow(er)	$ 181,800
Married filing separately	$ 90,900

The tax package has a worksheet for these taxpayers to figure their personal exemption amount.

-- The increased **standard deduction** amounts for 1997 are:

Single	$ 4,150
Head of household	$ 6,050
Married filing jointly or Qualifying widow(er)	$ 6,900
Married filing separately	$ 3,450

Different amounts apply if the taxpayer or spouse is blind or is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return.

-- The **Earned Income Credit** limits for 1997 are:

	Income Limit	Maximum Credit
One qualifying child	$ 25,760	$ 2,210
Two or more qualifying children	$ 29,290	$ 3,656
No qualifying children	$ 9,770	$ 332

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